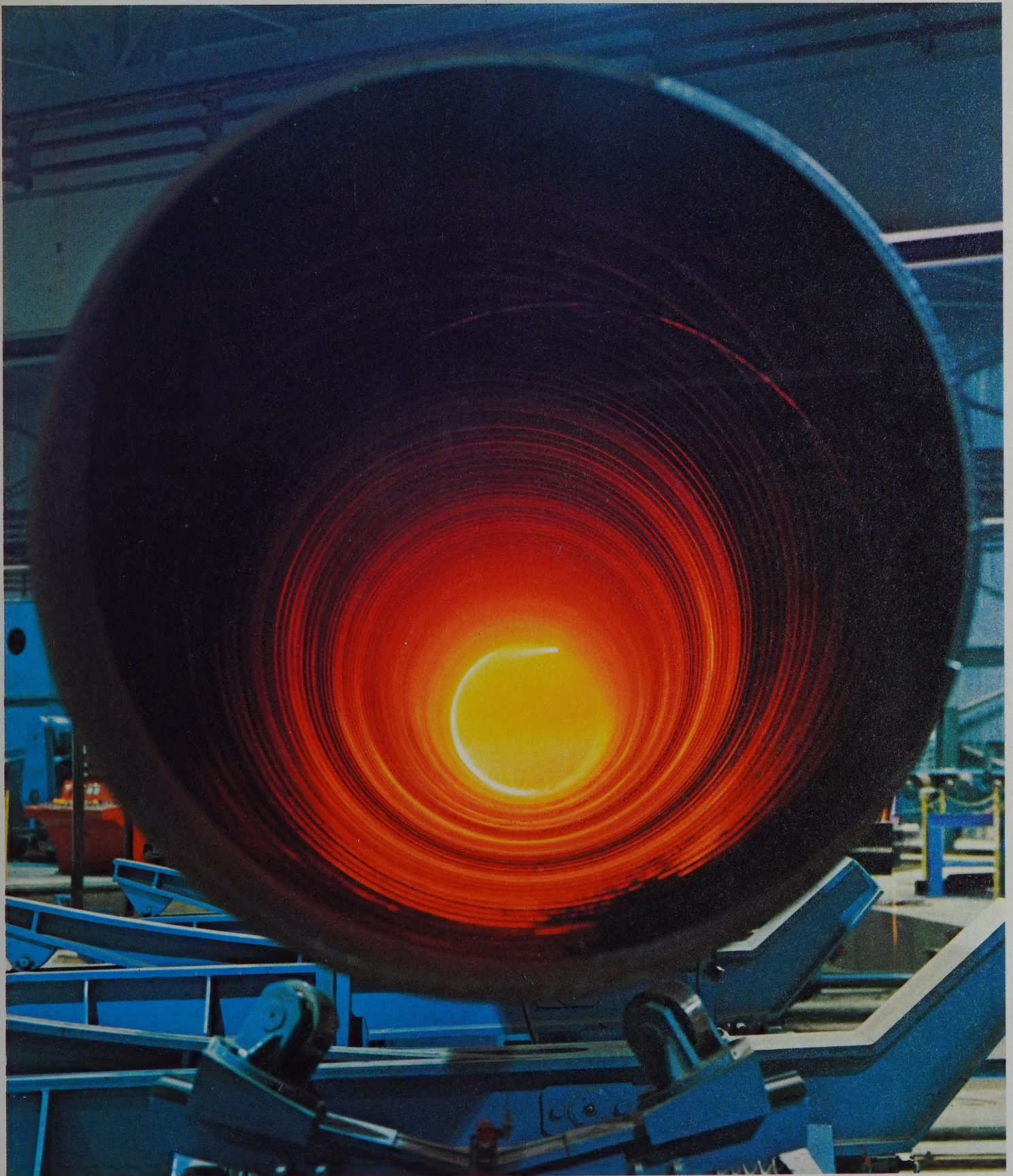


AR26



Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at the Cinema Theatre in the Concourse of the Toronto-Dominion Centre, Bay Street Entrance, in Toronto, at 10:30 a.m., Eastern standard time, on Monday, April 21, 1975.

Transfer Agent

MONTREAL TRUST COMPANY

Toronto, Montreal, Halifax, Hamilton, Winnipeg,
Regina, Edmonton, Vancouver

Registrar

THE ROYAL TRUST COMPANY

Toronto, Montreal, Halifax, Hamilton, Winnipeg,
Regina, Edmonton, Vancouver

Cover

A dramatic view of the plasma arc cut-off operation at the Stelform pipe mill now in production at Welland, Ontario.

Pour obtenir un exemplaire de la version française de ce rapport, veuillez écrire au secrétaire, The Steel Company of Canada, Limited, P.O. Box 205, Toronto-Dominion Centre, Toronto, Ontario, M5K 1J4.

AR26

stelco

stelco

Quarterly Report
to Shareholders for the
period ended
June 30, 1974

This message was mailed to shareholders
with their dividend cheques of August 1, 1974.

The Steel Company of Canada, Limited
Toronto, Canada

Quarterly Report

To the Shareholders of The Steel Company of Canada, Limited:

Consolidated results for the quarter and half year ended June 30, 1974 in comparison with results for the corresponding periods in 1973, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>1974</u>	<u>1973</u>	<u>1974</u>	<u>1973</u>
Raw steel produced - net tons	1,313,000	1,481,000	2,652,000	2,885,000
Sales _____	\$284,327,000	\$243,202,000 ✓	\$546,149,000	\$469,837,000
Depreciation _____	13,100,000	12,500,000	25,400,000	24,800,000
Income taxes _____	15,660,000	14,674,000	28,437,000	25,662,000
Net income _____	26,665,000	23,243,000	48,419,000	41,709,000
Net income per share _____	\$1.08	\$.94	\$1.96	\$1.69

Net income per share is calculated on the weighted average number of shares outstanding in each period.

Interim statements are subject to year-end adjustments and audit.

Raw steel production in the first six months was curtailed by the relining of two blast furnaces which resulted in reduced hot metal output. The relining program was completed at the end of May and both hot metal and steel production were restored to near normal levels in June. With the heavy demand for steel continuing unabated, and assisted by drawing on inventory, sales revenues and net earnings for the quarter and half year established new records.

Continued inflationary pressures, reflected particularly in the costs of raw materials, necessitated the introduction of price increases for certain products in May. Subsequently, the Federal Government appointed a Commission under the Inquiries Act to inquire into these price increases and any other increases which may be announced by other producers of primary iron and steel products. At this time, the Commission's investigations are continuing.

During the quarter, capital projects amounting to \$39 million were approved. At Edmonton, the new steelmaking facilities came into operation in June. These, together with the new steelmaking plant at Contrecoeur, Quebec, have increased the Company's annual steelmaking capacity by 400,000 tons.

Demand for steel remains strong and a capacity level of operations is expected to continue for the remainder of the year.

TORONTO, CANADA.
July 31, 1974.

J. P. GORDON, President and Chief Executive Officer.
H. M. GRIFFITH, Chairman of the Board.

Dividend August 1, 1974

The enclosed cheque is in payment of a dividend declared for the quarter ended June 30, 1974 payable to shareholders of record at the close of business July 2, 1974. The amount of the dividend is as follows:

Class "A" Convertible Shares
35¢ per share

Class "B" Convertible Shares
29³/₄¢ per share payable out of tax-paid undistributed
surplus on hand

NOTICE TO NON-RESIDENT SHAREHOLDERS: The Canadian Income Tax Act requires that a tax of 10% be deducted at the source from dividends paid to non-resident holders of Class "A" Convertible Shares. This tax has been deducted from the amount of your dividend and remitted to the Canadian Government.

CHANGE IN ADDRESS: Please notify the Montreal Trust Company, 15 King Street West, Toronto, Ontario, M5H 1B4, of any change in address, using the enclosed change of address card.

Banks or Trust Companies receiving dividends on behalf of shareholders are requested to send this folder on to them. Additional copies may be obtained from the Secretary of the Company.

AR26

stelco

stelco

Quarterly Report
to Shareholders for the
period ended
June 30, 1975

This message was mailed to shareholders with
their dividend cheques of August 1, 1975.

The Steel Company of Canada, Limited
Toronto, Canada

Quarterly Report

To the Shareholders of The Steel Company of Canada, Limited:

Consolidated results for the quarter and half year ended June 30, 1975 in comparison with results for the corresponding periods in 1974 were as follows:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>
Raw steel produced - net tons	1,501	1,313	2,962	2,652
Sales _____	\$313,588	\$284,327	\$633,575	\$546,149
Depreciation _____	13,200	13,100	26,000	25,400
Income before income taxes _	44,525	42,325	91,915	76,856
Income taxes _____	16,252	15,660	33,549	28,437
Net income _____	28,273	26,665	58,366	48,419
Net income per share _____	\$1.15	\$1.08	\$2.37	\$1.96

Net income per share is calculated on the weighted average number of shares outstanding in each period. Interim statements are subject to year-end adjustment and audit.

An easing in demand for some products was reflected in the sales and net income for the second quarter. While the results for the six months were improved over those for the previous year, the second quarter showed a decline from the earnings rate of earlier months. Steelmaking facilities, however, have been operated close to capacity and semi-finished inventories are being built up to offset the effect of a blast furnace reline scheduled for September.

Capital appropriations amounting to \$57 million for certain installations at the Lake Erie steel plant, previously approved in principle, were ratified by your Directors during the quarter. In addition, \$15 million of capital expenditures at other plants, including \$5 million for environmental control facilities at Hilton Works and the Edmonton Steel Works, were approved. Construction of the direct reduction kiln at the Griffith Mine has been completed and this facility is now in the commissioning stage with a limited tonnage of commercial product being produced.

The 5 per cent investment tax credit announced in the June 23rd budget of the federal government is expected to have a favourable effect on the financing of the Company's expansion program. The results for the six months, however, do not include any portion of this credit.

At the time of printing, negotiations were still underway for the renewal of the Company's collective agreements with the United Steelworkers of America, and both parties were hopeful of arriving at a reasonable settlement before the expiry of the contracts on July 31. Continuing efforts were also being made to settle the strike which started at the Scully Mine in March. The shutdown at this mine has not adversely affected steel production.

The demand for steel products in the next few months is uncertain and operating levels will be dependent on the rate of general business recovery.

TORONTO, CANADA.
July 31, 1975.

J. P. GORDON, President and Chief Executive Officer.
H. M. GRIFFITH, Chairman of the Board.

Dividend August 1, 1975

The enclosed cheque is in payment of a dividend declared for the quarter ended June 30, 1975 payable to shareholders of record at the close of business July 2, 1975. The amount of the dividend is as follows:

Class "A" Convertible Shares

40¢ per share

Class "B" Convertible Shares

34¢ per share payable out of tax-paid undistributed surplus on hand

NOTICE TO NON-RESIDENT SHAREHOLDERS: The Canadian Income Tax Act requires that a tax of 10% be deducted at the source from dividends paid to non-resident holders of Class "A" Convertible Shares. This tax has been deducted from the amount of your dividend and remitted to the Canadian Government.

CHANGE IN ADDRESS: Please notify the Montreal Trust Company, 15 King Street West, Toronto, Ontario, M5H 1B4, of any change in address, using the enclosed change of address card.

Banks or Trust Companies receiving dividends on behalf of shareholders are requested to send this folder on to them. Additional copies may be obtained from the Secretary of the Company.

AR26

(15) 8
"ADDRESS TO THE SHAREHOLDERS"

BY (9)

J. PETER GORDON

PRESIDENT AND CHIEF EXECUTIVE OFFICER
THE STEEL COMPANY OF CANADA, LIMITED

TO THE

ANNUAL AND SPECIAL GENERAL MEETING

OF SHAREHOLDERS

MONDAY, APRIL 22, 1974 (15)

AT

10:30 A.M.

AT THE

TORONTO-DOMINION CENTRE

TORONTO, CANADA

(12)

Good morning Ladies and Gentlemen:

By almost any measure, the Company's results in 1973 were satisfactory.

As indicated in the Annual Report, new records were established for steel produced, products shipped, sales' revenues and profit earned. In almost every case, the 1973 record was significantly ahead of the previous best.

At the same time, a significant improvement in the ratios of profit related to sales, to investment and to shareholders' equity were recorded and, for the first time since 1968, they approached the Company's objective^s for reasonable rates of return on its assets and on the shareholders' investment in those assets. The improvement has been long sought and is most welcome. To provide and attract the capital that will be needed for expansion, the maintenance of satisfactory earnings in relation to investment is vital.

In discussing the 1973 results, I would like to emphasize that while the unprecedented demand for steel provided the foundation for your Company's achievements, the results also reflect the growing production capacity and efficiency that have accrued from large-scale equipment installations and improvements in the past few years. At Hilton Works in particular, major additions have included a basic oxygen furnace shop and a second bloom and billet mill plus changes to existing equipment and material-handling systems, all of which have made ~~an~~ important contribution^s to production. The traditional break-in period, with adjustments and scheduling problems, had an adverse effect on results in 1972, but in 1973 ^{they} these were overcome as the new facilities gained in efficiency and reached or exceeded our production forecasts.

Capital expenditures in 1973 were also a record. They included three important projects that were approaching completion as the year ended -- a first steelmaking plant at Contrecoeur, Quebec; the expanded steelmaking facility at Edmonton; and the Stelform spiralweld mill for large diameter heavy wall pipe at Welland.

31/8
The Contrecoeur plant poured its first steel late in January. It is making satisfactory progress and the output rate is gaining momentum. The Edmonton steelmaking plant is expected to be in operation early in May. The spiralweld mill, incorporating a number of technological innovations and advances in the manufacture of steel pipe, is now under test and will be in production in July. x

Orders for the quality of pipe, for which it is capable, have already been received. These three large installations not only add to the Company's producing capacity, but they continue to extend its product range and the geographic distribution of its operations.

The major investment decisions taken in 1973 -- the Lake Erie development, the SL/RN direct reduction kiln at the Griffith Mine, and additional interests in iron ore and coal mining -- are in keeping with the year's all-out volume of operations, a steel demand in excess of capacity, and improvements during the year in Stelco's efficiency and profitability. These decisions, however, were taken in the face of some ^{very} profound economic concerns.

First and foremost among these is the mounting problem of inflation -- a subject with which I will deal in some detail. Secondly, we are now undergoing an energy shortage of uncertain duration. While not as serious for Canada as for many other Countries, it must have an impact on our economy and our planning. For Stelco, it has two sides -- there will be an additional steel demand for the building and distribution of new power sources but, on the other hand, there is the need to practice economy in the consumption of energy both in the short and long-term in the face of possible shortages.

Constant attention must be given to the development and use of alternative sources. *2 lines* International trading uncertainties, adverse exchange rates and currency adjustments, as well as high interest rates, assist in clouding the economic outlook.

Despite all of these, the decision was taken to embark on the biggest expansion program the Canadian Steel Industry has ever undertaken and with good reasons. I would like to review the need for such a program and your Company's ability to carry it out successfully.

Page (5)

I am sure I need not dwell on the fact that the World is in the midst of a steel shortage and, despite efforts to correct this imbalance, comprehensive studies indicate that demand will continue to exceed available supplies through to the 1980's. It is estimated that World requirements will grow by 270 million ingot tons or about 35% between 1973 and 1980 and that Canadian demand will grow by 5 million ingot tons or 45% during the same period.

Canadians, are blessed with a growing market, relative abundance of raw materials, and a Steel Industry in which this Country can take pride. Your Company intends to participate in this growth and I think the reason for this is apparent. We intend to maintain our share of the domestic market which we have developed over the years and to maintain a significant presence in the markets abroad which we have attained.

We have the necessary property on the shores of Lake Erie, sufficient raw materials, and opportunities to add to them in order to support this further expansion. The Company has stability and strength borne of its wide diversity of products. We have been recognized over the years for our quality standards and our ability to innovate. Our manufacturing plants are well located and geographically exposed to the markets ^{across} ~~in~~ this Country. Our modern Research Centre continues to provide tangible evidence of technological innovation in various forms of steelmaking science.

Financially, the Company is sound. The conservative fiscal policies followed by successive Managements have ensured a secure financial structure capable of financing heavy capital expenditures. Last, and by no means least, Stelco has a staff of highly competent people who are well organized, experienced and skilled in many disciplines. Their abilities and determination to see this Company progress augur well for the success of our expansion programme.

Stelco's progress will depend not only upon the inherent strengths which I have just outlined, but upon a favourable business environment. There are two aspects to this environment upon which I want to comment -- INFLATION and CORPORATE TAXES.

The Country is currently locked in the grips of the most savage inflation ^{that} the Company has ever known. The savings of all of us as individuals are being eroded at an ever-increasing pace by heavy and frequent price increases. Nevertheless I believe that you, as the owners of this Company, have a right to know the extent to which Stelco is being affected by these inflationary forces, and what is being done to preserve the shareholders' equity ^{this year} in the business.

During 1973, increasing prices for materials and supplies added \$48,000,000 to Stelco's manufacturing costs on an annual basis. By way of comparison, this cost increase was equivalent to more than a third of last year's before-tax income. ✓

But ^{that} this is only part of the story. Since December, the rate of cost inflation

has almost doubled. To illustrate, the average cost of domestic industrial

steel scrap during the first quarter of 1974 was more than 80% above the

cost during the same period of 1973. At \$100.00 per ton, the price of

domestic scrap this month is two-thirds as large again as the price prevailing

only three months ago. Coal prices, which in 1973 rose by 5%, increased

early this month by over 40% from the price in March as a result of these

price controls being removed in the United States. The cost of zinc, an

essential ingredient in the manufacture of galvanized steel, has increased

by more than 60% over its price in 1973. To place these cost increases in

perspective, SCRAP, COAL, AND ZINC together constitute nearly 20% of

total manufacturing costs at Hilton Works. I will not burden you with

details of other cost increases which we, as a Company, are experiencing.

They have been both pervasive and in some cases higher than the rate of

escalation in scrap, coal, and zinc prices.

It is apparent that there is simply no way in the short-term for the efficiency of Stelco's operations to be increased so as to fully offset such massive ^{cost} increases.

The surest way to improve efficiency is to increase production volume, but since the Company operated virtually at capacity in 1973 volume can be increased this year only through plant expansion. Some growth in steelmaking capacity will occur in 1974. However, the magnitude of the physical effort required to build additional steelmaking facilities, coupled with the long lead times required to procure necessary equipment, means that Stelco's growth in productive capacity this year will be modest. To slow the growth of unit costs in 1974. we will have to pursue other methods of raising productivity with even greater vigour than we have in the past.

In the face of these rising costs and the constraints on our ability to achieve a substantial increase in productivity, Stelco has had no choice but to increase its selling prices. This decision has been taken reluctantly, but has been made in order to maintain an adequate return to you, the shareholders, thereby assuring the Company of a continuing ability to raise the capital necessary for our expansion program.

It is important to note that trade practices limit the Company's flexibility to adjust prices as increased costs are incurred. That is, while notification of increases in the cost of the Company's materials and supplies are occurring almost daily, steel prices are adjusted much less frequently.

Page (11)

With respect to Stelco's marketing practices, it is also significant that

the Company's average domestic selling price in 1973 was roughly 8%

less than the price at which the same products could have been sold abroad.

Despite the added profits we could have earned by exporting at these higher

prices, the Company reduced its exports by over 15% last year in order to

provide additional steel supplies to its domestic customers. We believe

that our Policy of directing as much steel as possible to Canadian customers

in these periods of tight supply is the proper short-term and long-term

must
course ~~to~~ follow.

I mentioned earlier that there was a second aspect of today's business

environment I wanted to comment upon. I refer, of course, to the much-

discussed corporate tax incentives granted to the manufacturing and

processing industries by the Federal Government in the 1973 Budget.

Page (12)

Some critics of these incentives have alleged that they are used to "feather the nests of shareholders " rather than to improve the competitive position of Canadian industry, expand investment and to create new employment for Canadians. Let me take a moment to try and answer some of these charges.

Turning first to Stelco's competitive position, we have calculated that in broad terms the moderating influence of the tax rate reduction in 1973 was about \$2.00 per ton of steel product, and is expected to be at least this much in 1974 and 1975.

With respect to increasing investment, the tax incentives created a positive attitude within Stelco that contributed to the Board's decision to proceed with our major steelmaking expansion at Lake Erie. This \$2 billion expansion programme will benefit us greatly if the tax measures continue beyond 1974 in large part because they will reduce the Company's need to raise outside capital.

The charge has been made that little additional permanent employment has been created by these tax incentives. But job creation is related to capital investment, and in the Steel Industry such investment takes years to complete. One can hardly expect permanent employment to occur before the need for such employment exists.

What we can say is this. At the peak of Stelco's expansion programme at the Lake Erie site, the number of construction workers employed in building our steelmaking facilities will exceed 2,500. Moreover, by 1977, when the first stage of the programme is completed, the Company will have about 1,700 permanent employees at the Lake Erie ^{Site} Development.

But some critics of these tax provisions have gone further, alleging that it is the shareholders who will reap most of the benefits stemming from incentives. To judge from the ^{method} ~~evangelic~~ strains with which these critics

have launched this aspect of their attack, one would think the shareholders of Canada's manufacturing and processing industries represented only a tiny

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Page (14)

minority of our society and, further, that this minority is overwhelmingly dominated by foreigners.

What are the facts so far as Stelco is concerned? First, the Company has nearly 40,000 shareholders, over 95% of them are Canadian ^{5 - indiv or} citizens or institutions. Secondly, no individual owns even half of one percent of Stelco's share capital. Thirdly, in addition to the Company's 40,000 shareholders, a great many Canadians in all walks of life participate in the ownership and profits of the Company through the holdings of financial institutions including mutual and pension funds, as well as life insurance companies. In view of this breadth of ownership, it is surprising that the critics of the tax incentives are not urging more, rather than less, distribution of their benefits. After all, during the past ten years, Stelco has plowed back no less than 83% of the total cash generated from operations into business assets.

It has been suggested that the Company's profits are excessive and that the shareholders -- you and I -- have reaped a windfall through our equity in Stelco. This is absurd. Taking into account both the appreciation in Stelco's stock since 1963, as well as the dividends paid during that period, the shareholders' rate of return has been about 8-1/2% per year. After subtracting inflation of almost 4% per year during this period, as well as taxes on dividend income, stock commission fees and, more recently, a capital gains' tax on liquidation, the average Stelco shareholder was fortunate if he was able to realize a real return of more than 3% on his initial investment in Stelco in 1963. Before condemning us as a poor investment, let me hasten to add he could have done no better had he invested in the stocks included in the Toronto Stock Exchange's Industrial Index during the same period.

ally. I can't see it is any the
more fair to
us, is that

Page (16)

In brief, so far as Stelco is concerned, the allegation of a corporate "rip-off" is a myth. The manufacturing and processing tax incentives granted in the 1973 Budget, if they are continued, will strengthen this Company's competitive position and will support increasing investment, employment, and benefits to all those Canadians who, directly and indirectly, share in Stelco's fortunes. And, most importantly, these incentives will help to combat inflation by bringing about a better balance between supply and demand.

see Results

CONCLUSION:

In closing, may I express on your behalf our appreciation to my fellow members on the Board whose interest, wise counsel and advice have made my responsibilities a good deal less arduous. And, finally, to my fellow Officers and colleagues on Stelco's Management Team whose strength has been demonstrated and who, I know, are ready, willing and most able to face the very considerable challenges that lie ahead of your Company.

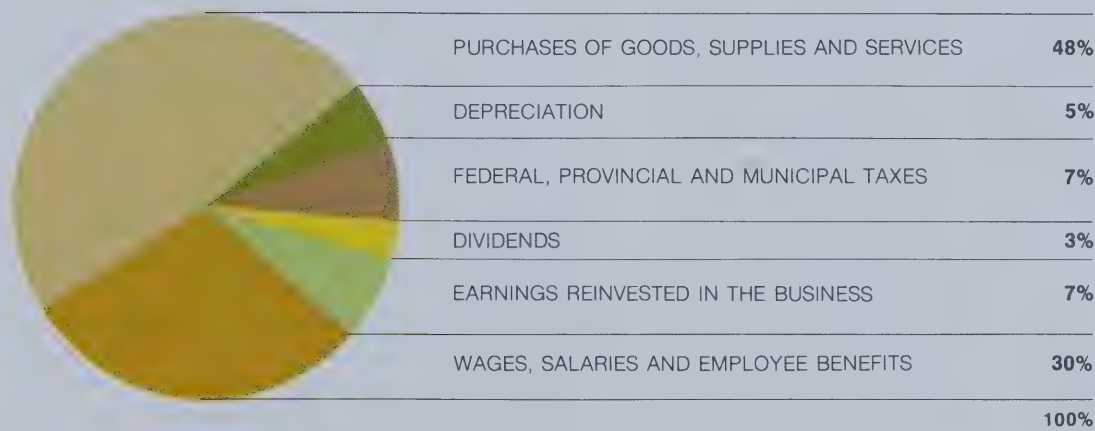
Corporate Highlights 1974

- ☐ Record sales and profits.
- ☐ First steel poured in Quebec.
- ☐ Edmonton steelmaking modernized.
- ☐ New process for manufacture of oil and gas pipe.
- ☐ Lake Erie Development construction under way.
- ☐ Government inquiry vindicates industry pricing policy.

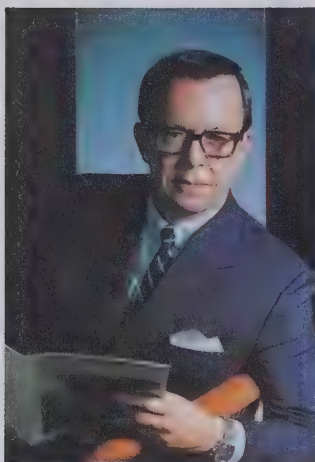
Financial Highlights

	1974	1973
Sales	\$1,133.2 million	\$937.7 million
Net income	\$110.9 million	\$87.7 million
Per cent of sales	9.8%	9.4%
Per share	\$4.50	\$3.56
Dividends	\$38.2 million	\$32.0 million
Per share	\$1.55	\$1.30
Capital expenditures	\$135.5 million	\$116.5 million
Depreciation	\$52.1 million	\$46.7 million
Materials and services bought and used	\$563.7 million	\$438.0 million
Total employment costs	\$350.6 million	\$308.2 million
Raw steel produced — net tons	5.5 million	5.7 million

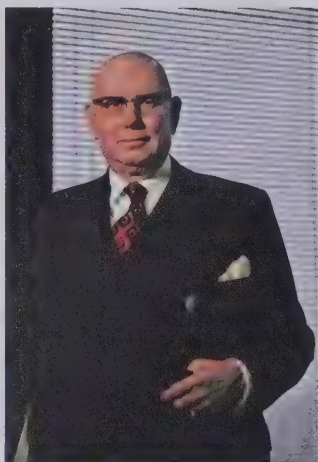
Distribution of Total Revenue 1974



To the Shareholders



J. P. Gordon



H. M. Griffith

By normal standards, 1974 was an outstanding year for Stelco. An intense demand for steel provided our plants with full operating schedules and, almost without exception, the Company's products remained on allocation throughout the year.

For the first time in our history, sales revenue at \$1,133 million exceeded the billion dollar mark. While record sales and profit levels were achieved, comparison of these results with former years must take into account the serious distortions caused by inflation, as discussed in the Financial Review following this letter. Much of the growth in earnings is an illusion created by a decline in the purchasing power of the dollar.

Canada's apparent steel consumption in 1974 is estimated to have grown by 11% to 13.1 million net tons. The domestic industry, limited by capacity constraints, increased shipments by about 5% and imports rose by 45% to 2.7 million tons, or 21% of apparent steel consumption. Steel consumers had to pay significant premiums over domestic prices for imported steel.

To meet the growing need for steel in Canada, the Company is moving as quickly as feasible to expand its steel-making capacity. Early in 1974, a new electric furnace and continuous casting plant came on stream at Contrecoeur, Quebec, and is now producing steel billets at a rate approaching 200,000 tons a year. At the Edmonton Works in Alberta, the original electric furnaces and billet caster have been replaced by larger and more efficient units which will increase the annual capacity of the plant from 150,000 tons to 300,000 tons.

A new integrated steel plant is being built on the north shore of Lake Erie. Construction of the blast furnace and hot strip mill is already under way and work on the basic oxygen furnaces, the slab caster and other equipment will begin in 1975. When the first stage of the plant is completed in 1977, Stelco's annual raw steel capacity will be increased by 1.3 million tons with provision for incremental growth in keeping with market needs.

Additional supplies of iron ore starting in 1977 have been assured by investments in properties on the Mesabi Range near the towns of Eveleth and Hibbing, Minnesota. Coal requirements are under continuous review with emphasis being placed on the development of coal sources within Canada. Because of worsening labour problems in the coal fields in the United States, and a growing shortage of readily available metallurgical coal sources, coal supplies were restricted in 1974 and special arrangements were made to extend the movement of coal through the Welland Canal until mid-January 1975.

Steel Profits Inquiry: Your Company's pricing and inventory policies were the subject of investigation in 1974 by a Commission established by the Federal Government. It is a matter of some pride that the report of the Commissioner, The Honourable Mr. Justice Willard Z. Estey, following weeks of testimony, cross-examination and intensive scrutiny, not only vindicated the Company's practices but also commented favourably on the restraint shown by the industry in the pricing of its products in a period of high world demand and sharp inflation. The report points out that the Canadian steel industry:

- ☐ is almost entirely owned and financed by Canadians;
- ☐ is abreast or ahead of world technology;
- ☐ produces steel at the lowest cost of any of the western industrial nations;
- ☐ sells steel at prices below world levels; and that
- ☐ its earnings measured by conservative standards of inflation or price level accounting may be well below the industry's essential requirements.

The Commission saw no justification for singling out the steel industry for extensive and expensive continuous price and profit surveillance, and as a concluding comment, observed that "Canada has a good and efficient steel industry, responsive to the country's needs, both the long-term need for increasing capacity, and the short-term need for price and export discipline".

We regret the necessity for frequent increases in the prices of our products. However, there is relatively little that one company alone can do to stem the onrush of inflation — the initiatives in this respect must be taken by our various levels of government. Our responsibility to our shareholders and employees, and to our customers and the country at large, is to maintain a sound financial structure and to expand our production capacity to meet increased demand for steel. To do otherwise would cause lasting harm to the Company and would adversely affect the Canadian economy.

Outlook for 1975: Forecasting is particularly difficult at this time with high inflation continuing during an economic slowdown, energy shortages, and international political and economic instability.

Canadian steel consumption in 1975 is expected to be down slightly from the 13.1 million tons consumed in 1974. Weakening demand is apparent in several steel-consuming industries but replacement of import tonnage, together with a strong demand for capital goods, should

Executive Officers (from left to right): G.H.G. Layt, Vice-President, Operations; J.D. Allan, Executive Vice-President; R.E. Heneault, Vice-President, Personnel; N.J. Brown, Vice-President, Finance; A.R. McMurrich, Vice-President, Marketing; J.W. Younger, Vice-President, Secretary and General Counsel; A.D. Fisher, Vice-President, Facilities Planning, Engineering and Research (seated).



continue to provide a firm market for your Company's products.

Collective agreements with the United Steelworkers of America, covering employees at Hilton Works and most of the fabricating plants, expire on July 31, 1975. The size of some recent settlements and the rising level of wage expectations evident in many sectors of the economy suggest that negotiations may be difficult, but we are cautiously optimistic that realistic agreements will be reached without operations being interrupted.

Directors: In the past year your Board of Directors, through death and retirement, lost two highly esteemed members. Mr. H. Greville Smith died on February 19, 1974, after almost 15 years of valued service on the Board. He was replaced by Mr. Kenneth A. White, President and Chief Executive Officer of The Royal Trust Company. At its last meeting in 1974, the Board accepted the resignation of its most senior director, Mr. V.W.T. Scully, C.M.G., who resigned in keeping with the compulsory retirement rules for directors of the Company. Mr. Scully, after a distinguished career in business and government service, joined Stelco in 1951 and has since given outstanding leadership in the direction of Stelco's affairs. His broad experience and keen intellect have been invaluable to the Board's deliberations and his departure from the Board is a source of sincere regret. The vacancy on the Board has been filled by Mr. John D. Allan, Executive Vice-President of the Company, who has been with Stelco since 1947.

Executive changes: In June, Mr. R. B. Taylor, Vice-President and Treasurer, retired to accept an appointment as Chairman of Ontario Hydro. We wish him success in this important position. Mr. N. J. Brown, formerly Vice-President and Comptroller, was elected Vice-President, Finance. Reporting to Mr. Brown, Mr. R. E. Karr was appointed Vice-President — Comptroller and Mr. W. C. Chick was appointed Vice-President — Treasurer. Mr. J. W. Younger, Q.C., was elected to the office of Vice-President, Secretary and General Counsel.

The Directors and Officers are pleased to express their appreciation to all employees who have performed effectively in a difficult period to minimize the impact of steel shortages; and to customers, suppliers and shareholders who have shown understanding and have supported the Company in its efforts to meet the demand for steel in Canada.

For the Directors,


President and Chief Executive Officer


Chairman of the Board

Toronto, Canada
February 17, 1975

Financial Review

Record sales and profits: Sales reached a record level of \$1,133.2 million in 1974, 21% higher than in 1973. The increase was due mainly to higher selling prices.

Net income was also a record at \$110.9 million (\$4.50 per share) an increase of 26% over the previous year's earnings. The ratios of net income to sales, to total investment and to shareholders' equity improved to 9.8%, 10.3% and 15.5% respectively, as illustrated by the accompanying charts.

While the improvement in profits is welcome and restores the rates of return to more satisfactory levels than in recent years, increasingly severe inflation impairs the validity of comparisons with the past. As the purchasing power of the dollar declines, the return earned on an investment which represents the original cost of long-held assets must increase to compensate not only for higher rates of interest but also for rapidly rising replacement costs. Inventories too must be replenished at ever-increasing costs. These factors raise a question about the adequacy of reported earnings to provide the funds needed to maintain a healthy financial condition. Inflated though the earnings may be, they are nevertheless taxed as "real" profits and the cash they generate for asset replacement, expansion and the payment of dividends is reduced accordingly.

Inflation increases production costs: Continuing rapid inflation exerted extreme upward pressure on operating costs as the prices paid for materials, supplies and services underwent unprecedented increases. For example, in 1974 the prices of steel scrap and coal more than doubled and prices of tin, zinc, natural gas, and fuel oil, rose by as much as 75%.

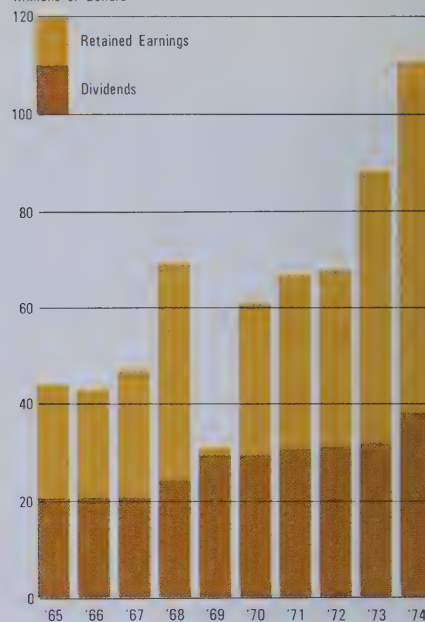
Recognizing the effect of inflation on the purchasing power of employees' earnings, the Company announced special wage adjustments over and above the increases granted under the terms of existing collective agreements. Comparable adjustments were made for salaried employees. Total employment costs increased by \$42.4 million in 1974.

Depreciation rises: The provision for depreciation rose to \$52.1 million from \$46.7 million in 1973. The increase was due to new facilities brought into use.

Steel Profits Inquiry: To offset sharply rising costs and to maintain a satisfactory rate of return on investment, the prices of the Company's products were increased during the year. Following the announcement of certain Stelco price increases in May, the Federal Government,

Net Income

Millions of Dollars

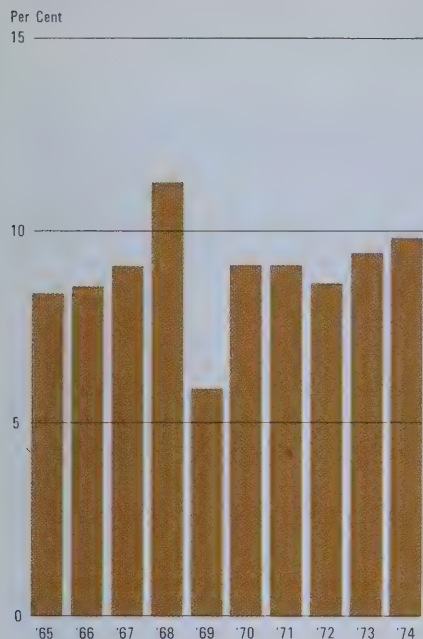


under the Inquiries Act of Canada, appointed Mr. Justice Willard Z. Estey a Commissioner to inquire into price increases for primary iron and steel products, and into inventory practices as they related to profit margins in the Canadian steel industry. Mr. Justice Estey's report, dated October 31, 1974, fully vindicated the Company's pricing policies and inventory practices.

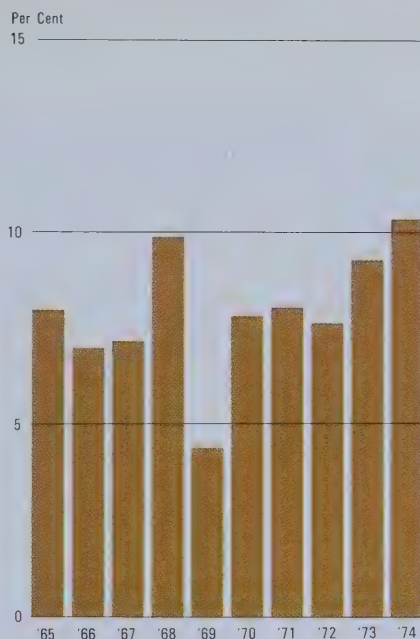
Debentures issued: In September, the Company sold for public issue at par \$65 million of twenty-year Sinking Fund Debentures, 1974 Series, bearing interest at 10% per annum. The annual mandatory sinking fund requirement is \$2.6 million on September 15 in each of the 14 years 1980 to 1993, inclusive. The underwriting discount and expenses amounting to \$1.1 million, will be amortized over the life of the debentures. The net proceeds will be applied towards the cost of planned capital expenditures.

Capital structure altered: In accordance with Supplementary Letters Patent dated May 6, 1974, the Company's existing common shares were reclassified as Class A Convertible Shares and an equal number of Class B Convertible Shares were created. The shares of each class are voting, convertible into one another on a share-for-share basis and rank equally in all respects except for the type of dividend paid on them. The change was made to give shareholders the choice of receiving ordinary dividends or tax-deferred dividends as permitted by the Income Tax Act.

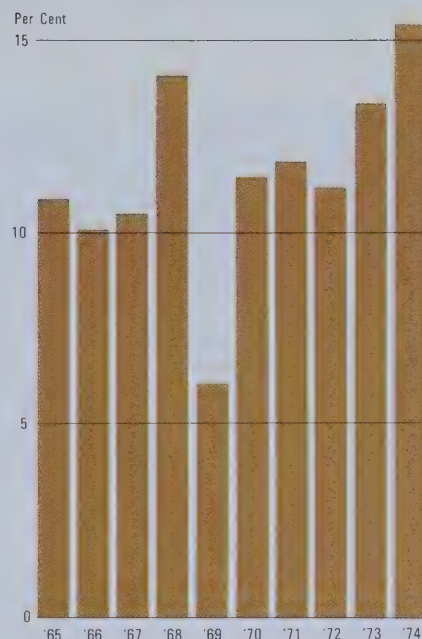
Return on Sales



Return on Investment



Return on Shareholders' Equity



Dividend payments increased: On the common or Class A shares a dividend of 35 cents a share was declared for each of the first three quarters of the year. In December, the Directors raised the dividend to 40 cents a share for the fourth quarter. At the same time an extra distribution of 10 cents a share was declared, an increase of 5 cents over the extra distribution declared in each of the previous three years. The total declaration for the year on common or Class A shares thus amounted to \$1.55 a share compared with \$1.30 in 1973. On the Class B shares a dividend of 29½ cents was declared for each of the second and third quarters and for the fourth quarter a dividend of 34 cents plus an extra distribution of 8½ cents was declared. Complete details of dividends declared are shown in Note 11 to the Financial Statements on page 21.

Continued high level of plant investment: Investment in plant and mining properties amounted to \$130.5 million in 1974, compared with \$109.5 million in 1973. The additional steelmaking facilities at Edmonton and Contrecoeur, the spiralweld pipe mill at Welland, the direct reduction kiln at the Griffith Mine, and the new steel plant on the north shore of Lake Erie, were the principal projects involved.

Capital investments approved during the year amounted to \$316.5 million. The amount still to be spent on capital projects is estimated to be \$900 million, including the first stage of construction of the steel plant at Lake Erie (see Note 3 to the Financial Statements on page 20).

Working capital strengthened: The Company's financial position was improved as working capital rose by \$82.5 million to \$301.1 million. The increased flow of funds from operations together with the proceeds of the debenture issue were the chief contributing factors. The ratio of current assets to current liabilities at the year end was 2.6 to 1 compared with 2.4 to 1 at the end of 1973.

More stringent collection practices have significantly reduced the amount of accounts receivable outstanding in relation to sales. Due to the heavy demand for steel products, physical inventory levels were also lower but this reduction was more than offset by higher unit values resulting from cost increases.

Intercorporate investment: At the end of 1974, investment in corporate joint ventures amounted to \$40.4 million, an increase of \$5.4 million during the year. The Company's participation in the Tilden ore mining project in the United States accounted for most of the increase. In addition, a 50% interest was acquired in Torcad Limited, Toronto, a company formed to operate a facility for plating and galvanizing metal products.

Shareholders: The number of shareholders at December 31, 1974 was 39,086 compared with 39,331 at the end of 1973. Residents of Canada held approximately 97% of the shares outstanding.

Operations

Steelmaking operations at capacity: Raw steel production in 1974 was 5.5 million tons, compared with 5.7 million tons produced in 1973. Two blast furnaces were relined in the first six months and the loss of hot metal production curtailed raw steel output. However, steel produced at the newly commissioned electric furnace plant at Contrecoeur offset, in part, the reduced output at Hilton Works.

Improvements at Hilton Works: Equipment brought on stream at Hilton Works in 1974 was primarily designed to improve product quality, to increase efficiency, and to meet environmental standards. Installations completed during the year include:

- evaporative cooling staves on "D" blast furnace, which should more than double the period between relines.
- improvements in the gas cleaning and cooling water recirculation system on "E" blast furnace.
- auxiliary equipment for the basic oxygen furnace shop which has increased production.
- an ion exchange plant to clean and recycle the waste rinse water from the electrolytic tinning lines.
- an improved slab scarfing machine at the universal slabbing mill, to enable specifications for certain high-quality products to be met.

Projects scheduled for completion at Hilton Works in 1975 include an automated scrap burning yard, bloom and billet conditioning equipment to improve product quality, a revamp of No. 2 rod mill to increase rod rolling capacity and installation of a turbo-blower to increase the capacity of "D" blast furnace.

Fabricating plants maintain high output: Most plants operated at high levels and, although the volume of products manufactured was limited by steel supply, new production records were achieved in a number of major departments.

The following important new production units came into operation in 1974:

- At Welland, Ontario, the Stelform pipe mill began to produce spiral welded pipe for the oil and gas pipeline market.
- At Edmonton, Alberta, two 75-ton electric steelmaking furnaces and a continuous billet caster were started up and modifications to the existing bar mill were completed. Serious technical problems, mainly electrical, which were encountered during the start-up of the new furnaces prevented the plant from reaching its expected rate of output in 1974. However, the rate of production is expected to increase significantly in 1975 as these problems are resolved.

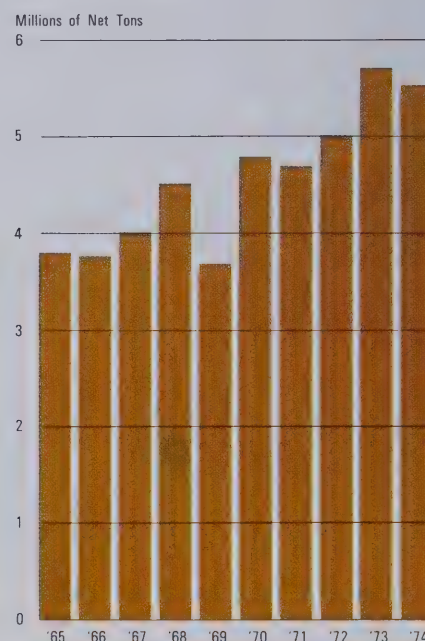
□ At Contrecoeur, Quebec, an 80-ton electric arc furnace and a 4-strand billet caster, Stelco's first steel-making operation in the Province, had a successful start-up and is making steel at close to rated capacity.

Good progress was made in reorganizing the wire mills in the Hamilton area to keep pace with increasing demand. This involved the transfer of oil tempering and ancillary wire drawing machines from Canada Works to Parkdale Works, the installation of new patenting and in-line cleaning equipment at Canada Works, and the addition of more wire drawing and wire stranding equipment at Parkdale Works.

The fastener products shipping centre at the new Burlington Works, in Burlington, Ontario, is nearing completion and shipments to customers will begin about mid-year. This plant, with its highly automated equipment, will centralize the stocking, packaging and shipping of Stelco's fastener products (bolts, nuts, washers and screws) which are produced at other locations in Ontario. Space formerly used for these operations at the production plants will become available for the installation of more manufacturing equipment.

A new rod processing plant is being built at Burlington Works to anneal, pickle and coat steel rod for subsequent operations.

Raw Steel Produced





The steel plant at Contrecoeur is a noteworthy addition to the Company's facilities. Stelco now produces raw steel in Quebec to feed the rolling mill and fabricating plants it operates in the Province.



A 3-strand continuous billet caster, part of the new steelmaking operation, officially opened in 1974, at Edmonton Works, Alberta.



Charging the BOF at Hilton Works — over \$300 million has been invested at this Works since 1969 to expand and modernize the plant.

Raw Materials and Energy Supplies

Coal shortages: Coal supplies were severely curtailed during the year, making it necessary to reduce coke oven operations and to use coke from stock to maintain pig iron output. Coal production was reduced by generally lower productivity, high absenteeism, scattered illegal strikes and by the extended strike which followed the expiry of the contract between the coal mining companies and the United Mine Workers of America. Illegal strikes and absenteeism affected the Chisholm Mine operations in Kentucky less than the Madison and Beckley Mines in West Virginia. The Beckley Mine is taking much longer than expected to attain predicted capacity.

During 1974, coal from Western Canada was brought in for use in the coke ovens at Hilton Works. Shipments were restricted, however, by a shortage of rail cars, by limitations in coal handling facilities at Thunder Bay, and by shipping strikes on the Great Lakes.

Negotiations are proceeding for additional supplies of coal for Hilton Works and for future Lake Erie operations. Possible ownership interests and purchase agreements related to coal properties in both Canada and the United States are under consideration.

Iron ore supplies sufficient: Adequate quantities of iron ore were available during the year and no supply difficulties are foreseen in 1975. Both the Griffith and Hilton Mines operated satisfactorily and the Scully Mine had a satisfactory record despite derailments on the rail line from the concentrator to the pellet plant at Pointe Noire. Production at the Erie Mine was interrupted by a strike in August but the mine operated as scheduled for the remainder of the year. The shipping strike on the Great Lakes also disrupted ore shipments.

Construction of the Tilden Mine in Michigan, in which Stelco has a 10% ownership interest, was completed late in 1974. Full production, at a rate of 4.0 million tons per annum, is expected early in 1975. Engineering studies for the purpose of doubling the capacity of this property by 1978 are in progress.

The Company has taken a 23.5% share in the Eveleth Expansion Company, which is expanding the Eveleth Taconite Project from 2.4 million tons to 6.0 million tons per year. The mine is located near Eveleth in northern Minnesota. Initial production of iron ore pellets is scheduled for mid-1976. A 10% ownership interest has also been acquired in the Hibbing Taconite Project being developed near Hibbing, Minnesota. Iron ore pellets will be produced at the rate of 5.4 million tons per year, commencing in 1976.

To obtain further supplies, long-term contracts have been arranged with two iron ore producers for the purchase of iron ore pellets, with first shipments to begin in 1978.

Direct reduction kiln: The SL/RN kiln, being built at the Griffith Mine in northern Ontario, is expected to start producing by the middle of 1975. This will be the largest kiln based on the SL/RN process. It will use sub-bituminous coal as the reducing agent and therefore will not depend on a supply of natural gas as do certain other direct reduction processes. The product, a concentrated metallic iron, will be used for steelmaking at Edmonton and Contrecoeur, reducing the dependence of these plants on purchased steel scrap.

Scrap prices reach record levels: An almost insatiable need for steel scrap resulting from the unprecedented world-wide demand for steel, and the decontrol of scrap prices in the United States, led to a rapid escalation in prices to record levels in 1974. Scrap prices began to decline, however, toward the end of the year, reflecting the general slowdown in economic activity. Augmented by metallic iron from the direct reduction kiln, future supplies of scrap are expected to be adequate to meet the Company's requirements.

Stelco has a 50% interest in Fers et Métaux Recyclés Ltée. which was established at La Prairie, Quebec, to collect and prepare ferrous scrap, primarily for Stelco's Contrecoeur operation.

Energy supplies: Production of steel requires large quantities of energy in the form of coal, fuel oil, natural gas and electricity. The substantial increases in crude oil and coal prices thus added significantly to the Company's manufacturing costs in 1974. Every effort is being made to conserve energy.

A threatened reduction in supplies of natural gas, particularly in the Hamilton area, poses serious problems for the Company because many production units have been designed to use this type of fuel. Furthermore, a restriction in the supply of natural gas would make it more difficult to meet existing environmental standards. Representations have been made to the major supplier and to the National Energy Board, emphasizing the reasons why natural gas is essential to Stelco.



Massive components for the SL/RN kiln were transported by water and rail to the construction site at the Griffith Mine in northern Ontario. Here, 24-foot-diameter riding rings weighing over 100 tons each are hauled on specially built railway cars. Along the route, two tunnels were enlarged and a bridge reinforced to handle the load.



The Stelform mill at Welland, Ontario can produce spiralweld pipe up to 60 inches in diameter with wall thicknesses up to 1 1/8 inches.

Marketing

Flourishing markets: One feature dominated the Company's marketing activities in 1974: the unusually heavy demand for almost all products. Controlled distribution of steel was again necessary to assure supplies to those domestic customers who have traditionally constituted Stelco's principal outlets. Shipments totalled 4.1 million tons compared with 4.2 million tons in 1973.

The shortage of steel became a world-wide phenomenon in 1974. The result was a sharp increase in steel prices on the international market — a fact that discouraged purchase of semi-processed steel from outside sources to supplement the Company's domestic production. Canadian steel prices remained below those of most countries. Export sales offered attractive potential, but the needs of domestic customers remained the Company's primary concern, and export shipments, exclusive of steel purchased for conversion into tin plate, were no greater than in the previous year.

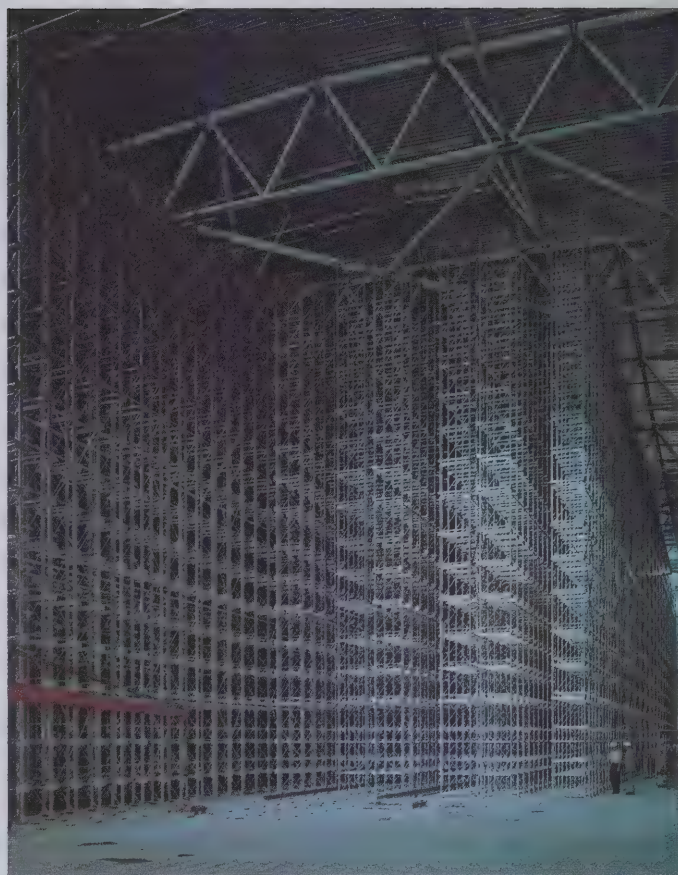
It became apparent during the year that the difficult steel supply situation was creating serious problems for many steel-consuming industries. An advertising program was initiated to inform customers and the public of the Company's plans to increase the supply of Canadian-made steel.

Imports up: Due to a shortage of steel in Canada, imports increased, mainly from the United States. Many customers were prepared to pay significant premiums over domestic prices in order to obtain steel supplies.

Metric conversion: Stelco is among the leaders in preparing for the country's conversion to the metric system of measurements. A Stelco task force has completed the first, investigatory phase of the basic problems, costs and benefits. Communication with customers and suppliers is being coordinated on an industry basis; Stelco employees are informed regularly of progress. Canadian steel product specifications and standards in metric dimensions are expected to be developed during 1975.

International trade: Despite limited amounts of steel available for export, the overseas sales subsidiaries carried on profitable operations by buying and selling steel abroad, and by other trading activities.

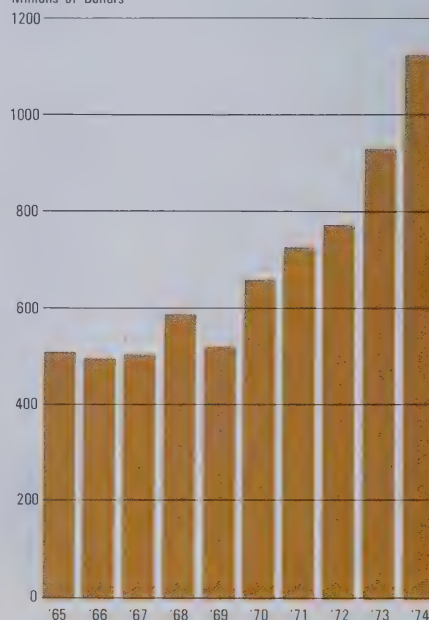
During the year meetings were held with government officials concerning forthcoming negotiations on amendments to the General Agreement on Tariffs and Trade.



An efficient centre for storage, packaging and distribution of fastener products is scheduled for completion in 1975 at Burlington Works. The centre's system of steel racks, 60 feet high and 350 feet long, has 19,080 storage openings serviced by computer-controlled stacker cranes.

Sales

Millions of Dollars

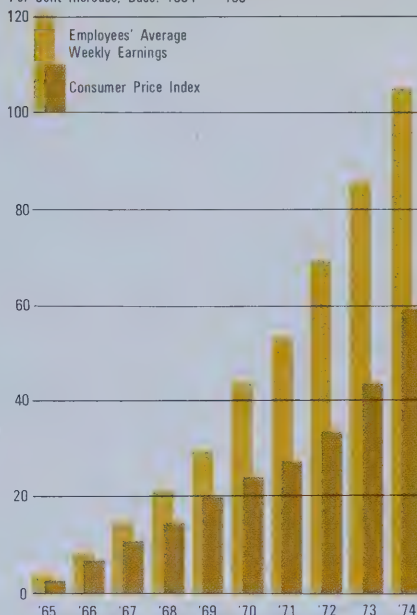


Employment Costs

WAGES AND SALARIES	1974
For time worked	\$280,441,000
For vacations and statutory holidays	21,936,000
	<u>\$302,377,000</u>
SUPPLEMENTARY EMPLOYMENT COSTS	
Pensions	\$ 22,604,000
Group insurance plans and other benefits	17,384,000
Unemployment insurance and workmen's compensation	8,222,000
	<u>\$ 48,210,000</u>
TOTAL EMPLOYMENT COSTS	<u>\$350,587,000</u>
AVERAGE NUMBER OF EMPLOYEES	23,251
EMPLOYEE BENEFITS	
Number of pensioners at year end	3,279
Pensions paid during the year	\$8,875,000
Life insurance in force at year end	\$367,940,000
Death benefits paid during the year	\$1,798,000

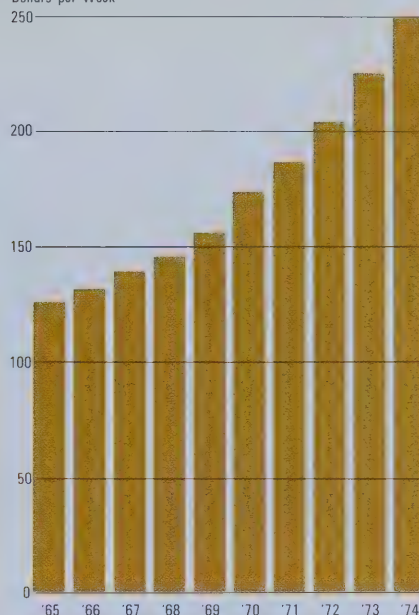
Employees' Earnings/Consumer Price Index

Per Cent Increase; Base: 1964 = 100



Employees' Average Weekly Earnings

Dollars per Week



Employees

Wage and salary adjustments: The highly inflationary economic climate in Canada in 1974 prompted the Company to bring forward to April 1 a 15-cent-an-hour increase, originally scheduled for payment in August, for the majority of employees covered by collective agreements. Fifteen cents an hour was then added to the existing cost of living allowance on August 1. A new supplementary allowance was also instituted to maintain an equitable relationship with adjustments made elsewhere within the Canadian steel industry. Comparable adjustments were made for salaried employees.

The accompanying charts show that average weekly earnings at Stelco have increased by 105% in the past ten years to \$249.15. In the same period of time, the consumer price index has risen by 59%.

Collective agreements: A two-year labour agreement was signed in April at Chemical Lime Works, Ingersoll, Ontario. At Saskatchewan Steel Fabricators, Regina, a four-week strike terminated with the signing of a two-year agreement in May. The three-year collective agreements in force at Hilton Works and at most of the Company's fabricating plants will expire at the end of July, 1975.

Recruitment and training: Recruitment in Canada and abroad was stepped up to find the additional technically and professionally qualified people needed to design and build the Lake Erie plant.

Employee training and development ranged from regular on-the-job apprenticeship programs at the various plants to special courses for management, supervisory and clerical people. The induction procedure for newly hired clerical personnel was supplemented by a two-day audio-visual orientation program to provide new employees with a comprehensive picture of the Company and their work environment. An increasing number of employees chose to upgrade their skills by attending extension courses leading to academic degrees and professional and technical diplomas.

Payments for suggestions: Through the Employee Suggestion Plan hundreds of employees contributed ideas to improve the Company's operations. Over one thousand suggestions were implemented; three employees receiving maximum awards of \$5000 each. A total of \$177,143 was paid to contributors of worthwhile ideas.

Employees involved in the community: Stelco employees continue to take an active part in community affairs. Many serve as citizen members of various civic boards and committees while others hold elective political office. These public-spirited people freely give their time and talents to community fund-raising campaigns, social service agencies, service clubs, recreational and sports organizations, the church and education, often in key administrative roles.

Lake Erie Development

Construction begins: Construction has begun on the Lake Erie project (an artist's sketch appears on page 16). The raw steelmaking capacity of the first stage will be 1.3 million tons per year, with production commencing late in 1977. Contracts have been awarded for the main structures: the blast furnace, the basic oxygen furnace shop and slab caster, and the hot strip mill. The foundations for these buildings are under way and erection of structural steel will follow early in 1975. Contracts have also been let for several major pieces of production equipment.

Because of its importance to the future growth of the Company, this development is under the direct control of a Stelco project management team comprising experts from Engineering, Purchasing, Accounting, Transportation and Industrial Relations. Also, key personnel from the Operating Division are assigned to work closely with the team. Outside engineering firms are being utilized for the design of various components and for the supervision of field construction.

Environment to be protected: The design of the plant includes many innovative features to protect the environment. An example is the 4,000-foot dock for receiving raw materials. This has been designed to minimize any effect it may have on the shoreline and the local fishing industry. The dock will have an open-bridged structure near the shore so that the usual water flow pattern and the passage of small boats will be undisturbed. Construction of the dock will conform to regulations laid down by the responsible government agencies and will be scheduled so that there will be no disruption of fish spawning. The dock will be capable of accommodating vessels having a length overall of 730 feet and a draft up to 27 feet.

By recirculating water to a much greater extent than has hitherto been the practice in the North American steel industry, the new plant will reduce the volume of water taken from and returned to the lake. Water returned to the lake will meet stringent pollution control standards.

Production equipment will also have distinctive environmental control features. For example, the basic oxygen furnace shop will be equipped with a collection system which will capture most of the particles produced during the steelmaking process and, in the future, will permit the use of the captured gas as a fuel, thus conserving energy. In addition, special provision is being made to control blast furnace emissions during casting.

Newest technology incorporated: The 10-metre hearth diameter blast furnace will be fed by means of a conveyor belt from a computer-controlled stock house. It will incorporate an evaporative-stave cooling system, similar to that recently installed on a blast furnace at Hilton Works. The steelmaking shop will be equipped with two 250-ton basic oxygen furnace vessels which will feed a double-strand slab casting machine capable of producing 10-inch thick slabs in widths from 30 to 74 inches. After casting, the slabs will be conditioned, if required, and then transported to the hot strip mill yard by means of rubber-tired vehicles.

The hot strip mill will initially consist of a single 4-high reversing rougher stand and a 6-stand finishing train. A hot strip finishing facility, also planned, will include a skin mill for further processing hot rolled coils.

Technology

A major advance in strip-rolling: In the past year the Company brought to maturity a significant new development in hot strip rolling. Known as "Hot Strip Rolling — Generation III", it will enable the Company to build its 80-inch hot strip mill at Lake Erie with a capital cost saving of more than \$30 million. This technology, which has been patented, will broaden the range of products that can be processed by the mill and will materially reduce electrical power demands and energy consumption.

As its major innovation, Generation III technology incorporates a Coilbox which coils hot steel between rolling operations, thus conserving heat for subsequent rolling. After three years of research and development, the device was tested successfully on the Hilton Works' hot strip mill. It is a striking example of the kind of creative thinking by Stelco's technical people that has contributed to the Company's success over the years.

The technology is now being offered for sale to other steel producers throughout the world by a new, wholly-owned subsidiary, Stelco Technical Services, Limited. One steel firm has already signed an agreement and several others have expressed interest.

Other advances: Notable developments include a new passivation treatment for galvanized sheet products, now in use on all the Company's strip galvanizing lines, and improved mill design and operating techniques to



From the start of development at the Lake Erie site, there has been a program of communication with residents in the area to ensure that local interests and concerns are recognized.



Prototype of the Stelco-developed Coilbox in operation at the Hilton Works hot strip mill. The coilbox concept is being incorporated in the strip mill at Lake Erie. The result will be more uniform steel quality, plus significant savings in capital and operating costs.



Millions of hours of engineering, planning and research have already been invested in the Lake Erie Development — the largest single expansion in the history of Canadian steelmaking.

produce large diameter, heavy-wall, spiralweld pipe suitable for use in Arctic conditions.

Energy: Stelco compares favourably with other steel producers in North America in energy consumed per ton of steel produced. The supply and efficient use of energy is vitally important to the Company and considerable research effort is being devoted to this end. Studies in progress include:

- use of nuclear energy in steelmaking.
- assessment of processes to produce metallurgical quality coke from lower grade coals.
- assessment of coal injection into the blast furnace to replace oil or natural gas.

At Stelco's instigation, the Ferrous Industry Energy Research Association has been formed to deal with the supply, utilization and conservation of energy in the Canadian steel industry.

Environmental Control

Extensive program continues: The Company continues to add to its already extensive control equipment for protecting the quality of air and water in the vicinity of its operations. Expenditures and commitments for this purpose increased in 1974 by \$19 million to a total of \$104 million. The annual cost of operating environmental control equipment now exceeds \$5 million.

At Hilton Works, a unique water recirculation and cleaning system was added to the largest blast furnace. The installation of electrostatic precipitators at the acid regeneration plant has improved both air and water quality. More effective collection of dust and fumes generated in the blast furnace and open hearth furnace operations has been achieved with the installation of additional baghouses.

Also at Hilton Works, work progressed on the last phases of a sanitary sewage system and on a filtering plant that will clean 60 million gallons of rolling mill waste water per day. In addition, two coal charging cars, designed to improve air quality by preventing emissions during charging of the coke ovens, are being built and should be in operation by the end of the year.

Large baghouse air-cleaning systems have been included in the new electric furnace shops at Edmonton and Contrecoeur.

Stringent controls at Lake Erie: The most modern environmental control equipment will be incorporated in the Lake Erie steel plant to make it one of the cleanest steelmaking operations anywhere. To provide the basis

for monitoring the effectiveness of this equipment and the impact of the plant on the environment, exhaustive studies were undertaken of air, water and land conditions in the area, including an assessment of wild life and social needs.

The Company's plans for the area include landscaping the property to integrate the plant with its greenfield surroundings.

Public Affairs

Public informed: A program of communication and community liaison was implemented in the Haldimand-Norfolk area to ensure that the public is informed about the development at Lake Erie. Several well-attended public meetings have been held and good communication has been established with the various levels of government and with community groups. The Company sponsors a radio community-service program in the area and a thirty-minute documentary colour film is being produced for public viewing in 1977. The importance attached by the Company to community relations is emphasized by the appointment of a full-time community affairs representative who is resident in the regional municipality of Haldimand-Norfolk.

Official openings: Plant tours were held for community leaders, employees, and media representatives at several Stelco facilities, including Canada Works and Canadian Drawn Works in Hamilton, the Stelform mill in Welland, and Canada's first ion exchange plant for the recovery of tin mill chrome wastes at Hilton Works. In September, Alberta's Premier, The Honourable Peter Lougheed, officiated at the opening of the Company's new steelmaking operation in Edmonton.

Corporate donations: Besides encouraging employees to take an active role in community affairs, the Company donates substantial sums to worthy causes each year. Assistance is given to organizations and institutions believed fundamental to the well-being of the country in such fields as education, health and welfare, environment and conservation, community development, and the cultural arts.

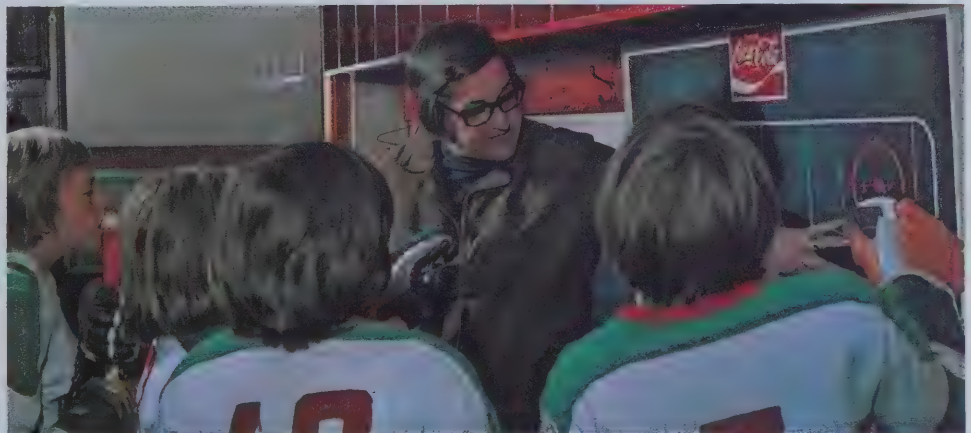


One way Stelco contributes to community activities is by sponsoring the popular Family Concert held annually at Hamilton Place. Some 4,700 employees donated \$150,000 and the Company \$385,000 toward the \$10.8 million cost of this theatre-auditorium.

Stelco and Dofasco share the operating costs of the Bluebird Bus which provides free transportation for groups of handicapped Hamilton citizens. The specially equipped bus is operated by Amity, an organization dedicated to the rehabilitation of the handicapped.



One of many Stelco employees taking an active part in community affairs, Michel DeSchutter, of our Montreal General Office, devotes much of his free time to the Cerebral Palsy Association of Quebec. He also coaches local hockey teams for the Candiac Recreation Association, Candiac, Quebec.





Artist's illustration of the Lake Erie Development, Stage 1.

Raw materials will be unloaded on the 4000-foot dock and will be transported to the storage area by covered conveyor. The blast furnace will be fed by conveyor from the computer-controlled stockhouse. Two 250-ton BOF vessels will provide steel to a double-strand slab caster. The 80-inch hot strip mill will be equipped with the Stelco developed Coilbox described on page 12. Noteworthy is the provision of greenbelts, buffer planting, and earth mounding to integrate the plant with its surroundings.

Consolidated Statement of Income and Retained Earnings

	Year 1974 (in thousands)	Year 1973 (in thousands)
Revenue		
Sales	\$1,133,163	\$ 937,662
Equity in net income of corporate joint ventures	3,417	1,969
Income from short-term investments	4,519	1,417
	<u>1,141,099</u>	<u>941,048</u>
Expense		
Cost of sales, exclusive of the following items	910,197	741,881
Provision for depreciation (Note 4)	52,117	46,666
Interest on long-term debt	10,173	8,240
Provision for income taxes — current	25,439	22,640
— deferred	32,312	33,937
	<u>1,030,238</u>	<u>853,364</u>
Net Income for the Year	110,861	87,684
(per share: 1974—\$4.50, 1973—\$3.56)		
Retained Earnings at beginning of year	540,303	484,643
	651,164	572,327
Dividends (Note 11)	38,209	32,024
(per share: 1974—\$1.55, 1973—\$1.30)		
Retained Earnings at end of year	\$ 612,955	\$ 540,303

Consolidated Statement of Financial Position

	December 31 1974 (in thousands)	December 31 1973 (in thousands)
Current Assets		
Cash	\$ 4,986	\$ 11,732
Short-term investments, at cost (approximates market value)	86,133	45,677
Accounts receivable	138,855	120,954
Inventories (Note 5)	253,119	192,257
Prepaid expenses	2,957	2,822
	<u>486,050</u>	<u>373,442</u>
Current Liabilities		
Accounts payable and accrued	146,326	106,176
Provision for income and other taxes	25,706	38,135
Dividends payable	12,262	9,856
Current portion of long-term debt	689	740
	<u>184,983</u>	<u>154,907</u>
Working Capital	<u>301,067</u>	<u>218,535</u>
Other Assets		
Long-term intercorporate investments (Note 6)	40,362	34,937
Fixed assets, less depreciation (Note 7)	812,093	734,093
Unamortized debenture issue expense	1,831	815
	<u>854,286</u>	<u>769,845</u>
Total Investment	<u>1,155,353</u>	<u>988,380</u>
Other Liabilities		
Long-term debt (Note 8)	165,455	103,803
Provision for deferred income taxes	237,847	205,535
	<u>403,302</u>	<u>309,338</u>
Shareholders' Equity	<u>\$ 752,051</u>	<u>\$ 679,042</u>
Derived from:		
Capital Stock — no par value (Notes 10 and 11)		
Authorized — 35,000,000 Class A Convertible Shares		
35,000,000 Class B Convertible Shares		
(1973 — 35,000,000 Common Shares)		
Issued — 24,653,399 shares (1973 — 24,639,399 shares)	\$ 139,096	\$ 138,739
Retained Earnings in use in the business	<u>612,955</u>	<u>540,303</u>
Shareholders' Equity	<u>\$ 752,051</u>	<u>\$ 679,042</u>

Signed on behalf of the Board:


Director


Director

Consolidated Statement of Changes in Working Capital

	Year 1974 (in thousands)	Year 1973 (in thousands)
Source of Working Capital		
Current operations	\$194,815	\$167,664
Issue of capital stock (Note 10)	357	480
Net proceeds from sale of debentures	63,920	—
Other (net)	491	598
	<u>259,583</u>	<u>168,742</u>
Disposition of Working Capital		
Expenditures for fixed assets	130,545	109,532
Long-term intercorporate investments (net)	4,949	6,981
Reduction of long-term debt	3,348	1,203
Dividends (Note 11)	38,209	32,024
	<u>177,051</u>	<u>149,740</u>
Increase in Working Capital	82,532	19,002
Working Capital at beginning of year	<u>218,535</u>	<u>199,533</u>
Working Capital at end of year	<u>\$301,067</u>	<u>\$218,535</u>

Auditors' Report

Riddell, Stead & Co.

CHARTERED ACCOUNTANTS

P.O. Box 262, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1J9

To The Shareholders
The Steel Company of Canada, Limited

We have examined the consolidated statement of financial position of The Steel Company of Canada, Limited and subsidiary companies at December 31, 1974 and the consolidated statements of income and retained earnings and changes in working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1974 and the results of their operations and the changes in their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 24, 1975

Riddell, Stead & Co.

Notes to Consolidated Financial Statements, December 31, 1974

1. Principles of Consolidation

The consolidated financial statements include the accounts of The Steel Company of Canada, Limited and its subsidiaries, all of which are wholly owned. The Company's interests in The Hilton Mines, Wabush Mines, and Hibbing Taconite Company, three unincorporated joint ventures, are also included in the consolidation.

2. Foreign Currencies

Accounts originating in foreign currencies have been translated generally at current rates of exchange except for plant and property values which have been translated at rates in effect at the date of acquisition.

3. Commitments

The estimated cost to complete approved capital programs, including the first stage of the new steel plant being constructed at Lake Erie, is \$900 million which will be spent over a five-year period. This includes provision for an estimated amount of inflation in construction costs.

The Company, as a participant in certain iron ore mining companies, is committed to pay its proportionate share of production costs of those companies, which costs include minimum charges for depreciation and interest approximating \$10 million annually to cover the servicing of long-term debt.

4. Depreciation

Provision for depreciation is calculated using the straight-line method at rates based on the estimated useful lives of depreciable assets.

5. Inventories

	1974 (in thousands)	1973 (in thousands)
Raw materials and supplies	\$114,660	\$ 82,335
Finished and semi-finished products	138,459	109,922
	<u>\$253,119</u>	<u>\$192,257</u>

Inventories are valued at the lowest of cost, replacement cost and net realizable value.

6. Long-term Intercompany Investments

	1974 (in thousands)	1973 (in thousands)
Corporate joint ventures, at equity	\$30,498	\$25,148
Portfolio investments, at cost	9,864	9,789
(market value: 1974—\$3.9 million, 1973—\$5.8 million)		
	<u>\$40,362</u>	<u>\$34,937</u>

7. Fixed Assets

	1974 (in thousands)	1973 (in thousands)
Raw material properties, at cost	\$ 213,579	\$ 177,909
Manufacturing plants and properties, at cost	1,267,913	1,178,883
	<u>1,481,492</u>	<u>1,356,792</u>
Less accumulated depreciation	669,399	622,699
	<u>\$ 812,093</u>	<u>\$ 734,093</u>

8. Long-term Debt

	1974 (in thousands)	1973 (in thousands)
5½% sinking fund debentures due April 1, 1983	\$ 796	\$ 796
(Sinking fund requirement fulfilled to maturity)		
5½% sinking fund debentures due May 1, 1990	42,557	43,747
(Annual sinking fund requirement \$1.3 million)		
9¼% sinking fund debentures due November 1, 1990	57,791	60,000
(Annual sinking fund requirement \$1.5 million — 1976 through 1983; \$2.0 million — 1984 through 1989)		
10½% sinking fund debentures due September 15, 1994	65,000	—
(Annual sinking fund requirement \$2.6 million — 1980 through 1993)		
	<u>166,144</u>	<u>104,543</u>
Less current portion included in current liabilities	689	740
	<u>\$165,455</u>	<u>\$103,803</u>

9. **Retirement Plans**

Pension costs charged against income in the year include payments made to trust funds, under the Companies' pension plans, for current and past service requirements as determined by an independent actuary. Unfunded past service costs in respect of pensions ultimately payable to the present employees are estimated to be \$121 million at December 31, 1974, and are being funded over periods not exceeding 15 years.

10. **Stock Options**

In accordance with a Stock Option Policy adopted in 1965, 174,500 shares are reserved for stock options. At December 31, 1974, options were outstanding in respect of 69,200 shares at prices ranging from \$18.75 to \$25.50 per share, including 56,700 shares under option to officers, the options expiring on various dates between December 1975 and February 1978. As a result of the exercise of options during the year, 14,000 shares were issued for cash aggregating \$357,000.

11. **Capital Stock and Dividends**

The Company's capital was altered by supplementary letters patent dated May 6, 1974, which reclassified the 35,000,000 common shares without nominal or par value as 35,000,000 Class A Convertible Shares without nominal or par value and increased the capital of the Company by the creation of 35,000,000 Class B Convertible Shares without nominal or par value. The shares of each class are voting, convertible into one another on a share-for-share basis and rank equally in all respects. The only distinction between the two classes of shares is that dividends on the Class A Convertible Shares are ordinary taxable dividends for purposes of the Income Tax Act while dividends on the Class B Convertible Shares may be paid out of the Company's tax-paid undistributed surplus on hand or 1971 capital surplus on hand as defined in the Income Tax Act.

In 1974, 861,416 Class A Convertible Shares were converted into Class B Convertible Shares. At December 31, 1974, the issued capital of the Company consisted of the following:

Class A Convertible	23,791,983 shares
Class B Convertible	861,416 shares
	<u>24,653,399 shares</u>

Dividends per share declared on Class B shares are equivalent to those declared on Class A shares, after adjustment for the special 15% tax payable by the Company to create tax-paid undistributed surplus on hand out of which Class B dividends are paid.

Dividends declared, together with the related tax on undistributed income, consisted of the following:

	1974 (in thousands)	1973 (in thousands)
Common (per share: 1974 — \$.35, 1973 — \$1.25)	\$ 8,626	\$30,792
Class A (per share: \$1.10)	26,324	—
Class B (per share: \$.935)	675	—
Related tax (per share: \$.165)	119	—
Extra distribution:		
Common (per share: 1973 — \$.05)	—	1,232
Class A (per share: \$.10)	2,379	—
Class B (per share: \$.085)	73	—
Related tax (per share: \$.015)	13	—
Total (per share: 1974 — \$1.55, 1973 — \$1.30)	<u>\$38,209</u>	<u>\$32,024</u>

12. **Remuneration of Directors and Officers** (Section 122.2 of the Canada Corporations Act)

The aggregate remuneration for 1974 of the Company's fifteen directors as directors was \$114,909. The aggregate remuneration of the Company's twenty-five officers and past officers as such was \$1,931,150. Two officers are directors of the Company.

Ten Year Statistical Summary

Dollars in thousands except as indicated*

	1974	1973	1972
Operations (thousands of net tons)			
Raw steel produced	5,542	5,723	5,031
Total raw steel processed (including purchases)	5,837	6,035	5,362
Income and Related Data			
Sales	\$1,133,163	937,662	775,931
Depreciation	\$ 52,117	46,666	39,738
Income taxes	\$ 57,751	56,577	22,892
Net income	\$ 110,861	87,684	67,089
Per share*	\$4.50	3.56	2.73
Return on sales	9.8%	9.4	8.6
Return on investment	10.3%	9.3	7.7
Return on shareholders' equity	15.5%	13.5	11.2
Dividends (including extra distributions)	\$ 38,209	32,024	30,763
Per share*	\$1.55	1.30	1.25
Earnings reinvested in the business	\$ 72,652	55,660	36,326
Capital Expenditures	\$ 135,494	116,513	95,034
Financial Position, year end			
Working capital	\$ 301,067	218,535	199,533
Fixed assets — net	\$ 812,093	734,093	671,778
Long-term debt	\$ 165,455	103,803	105,006
Shareholders' equity	\$ 752,051	679,042	622,902
Per share*	\$30.50	27.56	25.30
Employment			
Average number of employees	23,251	22,580	21,582
Total employment costs	\$ 350,587	308,220	264,542
Employees' average weekly earnings*	\$249.15	224.63	204.46
Number of Shareholders, year end	39,086	39,331	40,036

†1969 operations interrupted by strike — 80 days.

1971	1970	1969†	1968	1967	1966	1965
4,673	4,801	3,670	4,485	3,966	3,794	3,846
5,214	4,955	4,076	4,591	4,087	4,086	4,137
730,247	663,202	528,037	589,613	512,386	504,763	516,406
37,068	37,466	33,415	37,111	33,058	29,500	27,594
43,750	40,830	24,853	37,455	24,357	33,051	38,808
66,645	60,207	31,070	67,971	46,733	42,744	43,454
2.74	2.47	1.28	2.79	1.94	1.77	1.80
9.1	9.1	5.9	11.5	9.1	8.5	8.4
8.1	7.9	4.4	9.9	7.2	7.0	8.0
11.9	11.5	6.1	14.1	10.5	10.1	10.9
30,430	29,202	29,201	24,329	20,518	20,518	20,518
1.25	1.20	1.20	1.00	.85	.85	.85
36,215	31,005	1,869	43,642	26,215	22,226	22,936
95,077	89,471	33,344	33,498	89,212	99,542	75,540
203,663	217,982	176,510	175,810	123,861	138,560	180,355
621,287	564,549	514,457	515,331	519,817	464,313	396,291
107,781	110,227	54,217	57,476	59,476	59,726	78,480
579,928	543,503	507,756	505,794	458,943	432,728	410,503
23.82	22.33	20.87	20.79	19.01	17.93	17.01
21,351	21,497	21,792	21,584	20,556	20,360	20,262
234,547	221,216	176,223	186,948	169,219	151,708	143,179
186.35	173.46	156.38	146.52	138.65	130.98	125.13
45,829	49,985	51,730	52,520	53,340	53,017	46,597

Directors

- * W. Herman Browne, Toronto
Chairman of the Board, Moore Corporation, Limited
- * Alistair M. Campbell, Montreal
Chairman, Sun Life Assurance Company of Canada
- * J. Douglas Gibson, O.B.E., Toronto
Chairman of the Board, The Consumers' Gas Company
- * J. Peter Gordon, Toronto
President and Chief Executive Officer of the Company
- * H. M. Griffith, Toronto
Chairman of the Board of the Company
- A. J. MacIntosh, Q.C., Toronto
Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors
- Senator The Hon. Ernest C. Manning, P.C., C.C., Edmonton
President, M & M Systems Research Ltd.
- Frederick C. Mannix, Calgary
Corporate Director
- Jerry McAfee, Toronto
President and Chief Executive Officer, Gulf Oil Canada Limited
- * D. R. McMaster, Q.C., Montreal
Partner, Messrs. McMaster, Meighen, Minnion, Patch, Cordeau,
Hyndman & Legge, Barristers & Solicitors
- Lucien G. Rolland, Montreal
President and General Manager, Rolland Paper Company, Limited
- * V. W. Scully, C.M.G., Toronto
Chairman of the Executive Committee of the Board of the Company
- Henry G. Thode, C.C., Ph.D., F.R.S., Hamilton
Professor of Chemistry, McMaster University
- Kenneth A. White, C.D., Montreal
President and Chief Executive Officer, The Royal Trust Company
- William H. Young, Hamilton
President, The Hamilton Group Limited

*Member of the Executive Committee

Executive Officers

- H. M. Griffith
Chairman of the Board
- J. P. Gordon
President and Chief Executive Officer
- J. D. Allan
Executive Vice-President
- N. J. Brown
Vice-President, Finance
- A. D. Fisher
Vice-President, Facilities Planning,
Engineering and Research
- A. R. McMurrich
Vice-President, Marketing
- G. H. G. Layt
Vice-President, Operations
- R. E. Heneault
Vice-President, Personnel
- J. W. Younger, Q.C.
Vice-President, Secretary and
General Counsel

Vice-Presidents

- W. C. Chick
Treasurer
- L. H. Doering
Marketing Administration
- A. J. Harris
Manufacturing
- R. E. Karr
Comptroller
- R. H. Macdonald
Product Sales
- S. W. McDermott
Manufacturing
- A. R. Oliver
Procurement

Head Office

P.O. Box 205, Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4.

General Offices

Hamilton, Ontario
Montreal, Quebec—Eastern Region
Edmonton, Alberta—Western Region

Sales Offices

Hamilton, Ontario
Montreal, Quebec
Calgary, Alberta
Edmonton, Alberta
Quebec, Quebec
Regina, Saskatchewan
Saint John, New Brunswick
St. John's, Newfoundland
Toronto, Ontario
Vancouver, British Columbia
Windsor, Ontario
Winnipeg, Manitoba

Plants

Hamilton, Ont.	— Hilton Works
	— Canada Works
	— Parkdale Works
	— Frost Works
	— Canadian Drawn Works
Burlington, Ont.	— Burlington Works
Brantford, Ont.	— Brantford Works
Toronto, Ont.	— Swansea Works
Gananoque, Ont.	— Gananoque Works
Welland, Ont.	— Page-Hersey Works
	— Welland Tube Works
Montreal, Que.	— Notre Dame Works
	— St. Henry Works
Lachine, Que.	— Dominion Works
Contrecoeur, Que.	— McMaster Works
Edmonton, Alta.	— Stelco Edmonton, Steel Works
	— Stelco Edmonton, Finishing Works
Camrose, Alta.	— Camrose Works
Regina, Sask.	— Saskatchewan Steel Fabricators Ltd.

Raw Material Properties

	% Owned
Iron Ore	— The Hilton Mines, Que. 50.0
	— Wabush Mines, Nfld. and Que. 25.6
	— Hibbing Taconite Company, Minn. 10.0
	— The Griffith Mine, Ont. 100.0
Coal	— Chisholm Mine, Ky. 100.0
	— Madison Mine, W. Va. 100.0
Limestone	— Chemical Lime Works, Ont. 100.0

Subsidiary Companies, wholly owned

Saskatchewan Steel Fabricators Ltd., Regina, Sask.
Frost Steel and Wire Company, Limited, Hamilton, Ont.
Frost Steel and Wire Company, Quebec, Limited, Montreal, Que.
Stelco Technical Services, Limited, Hamilton, Ont.
Stelco Coal Company, Pittsburgh, Pa.
Pikeville Coal Co., Louisville, Ky.
Kanawha Coal Company, Ashford, W. Va.
Ontario Eveleth Company, Minneapolis, Minn.
Ontario Hibbing Company, Minneapolis, Minn.
Stelco Nederland B.V., Amsterdam, The Netherlands
Stelco S.A., Geneva, Switzerland
The Steel Company of Canada (U.K.), Limited, London, England
Ubbelohde-Stelco S.A.C. I. y de R., Buenos Aires, Argentina
Stelco do Brasil Ltda., São Paulo, Brazil
Stelco de Venezuela, S.R.L., Caracas, Venezuela

Corporate Joint Ventures

	% Owned
Iron Ore	— Tilden Iron Ore Company, Mich. 15.6
	— Erie Mining Company, Minn. 10.0
	— Eveleth Expansion Company, Minn. 23.5
	— Ontario Iron Company, Minn. 10.0
Coal	— Mathies Coal Company, Pa. 13.3
	— Beckley Coal Mining Company, W. Va. 12.5
	— Olga Coal Company, W. Va. 10.0
Other	— Baycoat Limited, Ont. 50.0
	— The Canada Systems Group (EST) Limited, Ont. 33.3
	— Torcad Limited, Ont. 50.0
	— Fers et Métaux Recyclés Ltée, Que. 50.0
	— Arnaud Railway Company, Que. 25.6
	— Wabush Lake Railway Company, Limited, Nfld. 25.6
	— Knoll Lake Minerals Limited, Nfld. 14.8
	— Northern Land Company Limited, Nfld. 12.8
	— Twin Falls Power Corporation, Limited, Nfld. 4.4



Explored each year by thousands of people, the Bruce Trail meanders 430 miles along the scenic Niagara Escarpment from Queenston Heights near Niagara Falls to Tobermory on Georgian Bay. Built and maintained by volunteers, the idea for this hiking trail was conceived by Ray Lowes (right), a Stelco metallurgist who is now a member of our Public Affairs department, on full-time assignment to the Bruce Trail Association.

stelco

The Steel Company of Canada, Limited
Toronto, Ontario

